Imperial Oil Limited
and subsidiary companies

Interim report to shareholders for twelve months ending Dec. 31, 1981

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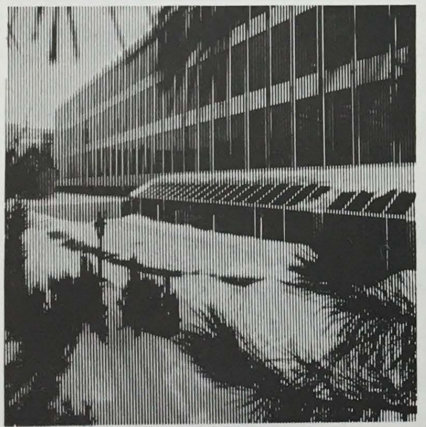
Performance highlights	Fourth quarter 1980	Fourth quarter **1981**	Twelve months to Dec. 31 1980	Twelve months to Dec. 31 **1981**
Financial (millions of dollars)				
Earnings from operations	120	**49**	601	**465**
Total earnings, including unusual items	120	**49**	682	**465**
Revenues	1910	**2210**	6349	**8185**
Funds from operations	291	**223**	1128	**1063**
Capital and exploration expenditures	182	**418**	861	**1107**
Earnings from operations per share (dollars)	0.76	**0.31**	4.15	**2.96**
Total earnings per share (dollars)	0.76	**0.31**	4.71	**2.96**
Dividends per share (Class A) (dollars)	0.35	**0.35**	1.40	**1.40**
Operating				
Gross production				
Crude oil and natural-gas liquids (thousands of m^3/d)	33.6	**28.6**	34.7	**28.8**
Natural gas (millions of m^3/d)	8.5	**8.4**	8.2	**7.7**
Crude oil processed (thousands of m^3/d)	70.8	**68.8**	71.1	**68.3**
Sales				
Natural gas (millions of m^3/d)	9.6	**9.1**	8.9	**8.5**
Petroleum products (thousands of m^3/d)	78.6	**71.0**	71.4	**69.0**
Chemicals (thousands of tonnes per day)	7.1	**6.5**	6.3	**6.4**



New research lab at Sarnia is one of three operated by the company.

Imperial Oil's earnings for 1981 are estimated at $465 million, a reduction of 32 percent from earnings of $682 million for 1980. The 1980 earnings included a non-recurring gain of $81 million.

Capital and exploration expenditures were $1107 million for the year, $246 million greater than in 1980. Operating working capital increased by $384 million, about $350 million of which was required to replace inventories at higher prices. These requirements of $1491 million exceeded funds generated by $414 million. The difference was met from cash reserves.

Earnings from natural resources were down sharply from 1980 results, a major factor being the National Energy Program's Petroleum and Gas Revenue Tax, which was $91 million. Increases in the price of crude oil and natural gas were more than offset by the loss of depletion allowance, declining productivity from mature oil fields, and the effects of the Alberta cutback. Syncrude earnings were positive but below 1980 results as major repairs and maintenance in the first six months held shipments of upgraded crude oil to about the same level as 1980 for the year. Shipments reached a peak of 19 000 m^3/d in November but declined to about 9500 m^3/d in December due to operating difficulties.

Earnings from petroleum products and chemicals were affected by adverse economic conditions, particularly in the latter part of the year.

Earnings from petroleum products increased an estimated $19 million. Earnings before "inventory profits," however, declined some $36 million from 1980 results. While sales volumes were down by three percent, the decline was less than for the total industry. Declines were greatest in home-heating oil and motor gasolines. Earnings were reduced also by the higher costs of processing crudes of poorer quality.

Earnings from chemicals were approximately $36 million less than 1980 results. Petrochemical margins were lower because higher feedstock costs could not be recovered for all products in a highly competitive market. Fertilizer earnings were less than in 1980 because increases in the costs of raw materials could not be recovered fully in the marketplace. Expenses on major investment projects also increased.

Investment income increased due to high rates received on short-term funds.

Earnings per share were $2.96 for the year compared with $4.71 for 1980.

In the fourth-quarter of 1981, earnings were $49 million. They were $157 million for the third-quarter of 1981 and $120 million for the fourth-quarter of 1980. Capital and exploration expenditures were $418 million in the fourth quarter.

In December, the company issued debentures for $200 million in U.S. funds to provide additional general funds.

Consolidated statement of earnings
(unaudited)

	Fourth quarter 1980	Fourth quarter **1981**	Twelve months to Dec. 31 1980	Twelve months to Dec. 31 **1981**
			millions of dollars	
Revenues				
Crude oil	126	**125**	375	**475**
Natural gas	56	**54**	191	**193**
Petroleum products	1417	**1690**	4702	**6202**
Chemicals	216	**229**	788	**895**
Investment income and other operating revenue	95	**112**	293	**420**
	1910	**2210**	6349	**8185**
Expenses				
Exploration	92	**86**	253	**221**
Purchases of crude oil and products	968	**1304**	2970	**4395**
Operating	291	**290**	844	**1068**
Marketing and administration	167	**186**	580	**643**
Interest	16	**20**	61	**66**
Depreciation and amortization	40	**67**	156	**244**
Commodity, property, and other taxes	107	**137**	392	**518**
Petroleum and Gas Revenue Tax	—	**25**	—	**91**
	1681	**2115**	5256	**7246**
Earnings before income taxes and unusual items	229	**95**	1093	**939**
Income taxes	109	**46**	492	**474**
Earnings before unusual items	120	**49**	601	**465**
Unusual items, net of income taxes (3)	—	**—**	81	**—**
Earnings for the period	120	**49**	682	**465**

Consolidated statement of changes in financial position
(unaudited)

	Twelve months to Dec. 31 1980	Twelve months to Dec. 31 **1981**
	millions of dollars	
Funds (1) were provided from:		
Operations (2)	1128	**1063**
Proceeds from sales of property, plant, and equipment	30	**14**
	1158	**1077**
Funds were used for:		
Dividends	201	**220**
Reduction of long-term debt	13	**14**
	214	**234**
Funds remaining for reinvestment	944	**843**
Investment		
Capital and exploration expenditures	861	**1107**
Increase in operating working capital (1)	256	**384**
	1117	**1491**
Deficiency of funds before financing	173	**648**
Financing		
Capital leases	9	**73**
Long-term debt	—	**220**
Capital stock	868	**8**
	877	**301**
Increase (decrease) in funds	704	**(347)**

Approved by the board

Donald K. McIvor Chairman and chief executive officer

J. G. Livingstone President

Operating statistics

	Fourth quarter 1980	Fourth quarter 1981	Twelve months to Dec. 31 1980	Twelve months to Dec. 31 1981
Exploration and development				
Gross exploratory wells drilled: oil	3	**2**	11	**8**
gas	28	**7**	113	**41**
dry	5	**5**	32	**16**
Gross development wells drilled: oil	30	**6**	83	**26**
gas	9	**4**	51	**48**
dry	2	**3**	11	**10**
Gross production				
Crude oil (thousands of m³/d)				
Conventional crude and natural-gas liquids	29.2	**23.0**	30.6	**24.2**
Syncrude	3.4	**3.9**	3.2	**3.2**
Cold Lake pilot	1.0	**1.7**	0.9	**1.4**
	33.6	**28.6**	34.7	**28.8**
Natural gas (millions of m³/d)	8.5	**8.4**	8.2	**7.7**
Refining				
Crude oil processed at company refineries (thousands of m³/d)	70.8	**68.8**	71.1	**68.3**
Refinery capacity utilization at Dec. 31 (percent)	92	**90**	93	**89**
Sales				
Petroleum products (thousands of m³/d)				
Gasolines	28.2	**24.9**	27.8	**26.6**
Middle distillates	27.2	**23.3**	22.7	**21.6**
Heavy fuel oils	8.9	**8.0**	6.5	**6.6**
Lubricants, greases, specialty oils, and other	14.3	**14.8**	14.4	**14.2**
	78.6	**71.0**	71.4	**69.0**
Natural gas (millions of m³/d)	9.6	**9.1**	8.9	**8.5**
Chemicals (thousands of tonnes per day)				
Petrochemicals	2.9	**3.1**	2.9	**3.0**
Fertilizer	2.7	**2.4**	1.9	**2.1**
Building materials	1.5	**1.0**	1.5	**1.3**
	7.1	**6.5**	6.3	**6.4**

Shareholder information
(unaudited)

	Fourth quarter 1980	Fourth quarter 1981	Twelve months to Dec. 31 1980	Twelve months to Dec. 31 1981
Average number of Class A and B shares outstanding, weighted monthly (thousands)	156 888	**157 124**	144 880	**157 034**
Share prices (Class A) (dollars)				
High	45¾	**28⅝**	57½	**38¼**
Low	30⅜	**25¼**	30⅜	**24½**
Close at Dec. 31	32⅞	**25½**	32⅞	**25½**
Dividends paid (millions of dollars)	55	**55**	201	**220**
Dividends per share (dollars)	0.35	**0.35**	1.40	**1.40**
Earnings from operations, per share (dollars)	0.76	**0.31**	4.15	**2.96**
Total earnings per share (dollars)	0.76	**0.31**	4.71	**2.96**
Funds from operations per share (dollars)	1.85	**1.42**	7.79	**6.77**

Notes to the financial statements

(1) Funds represent cash, marketable securities, and short-term loans, less short-term notes. Operating working capital is working capital less funds.

(2) Funds from operations comprise earnings before exploration expenses, adjusted for depreciation, deferred income taxes, and other items not affecting funds.

(3) On April 1, 1980, the Alberta Petroleum Marketing Commission began purchasing, at the wellhead, all crude produced from provincial Crown leases; since that date, the company has been recording net crude production from those leases as sales to the commission. Consequently, the earnings from crude production are now calculated from wellhead sales rather than after the crude has been processed and sold as refined products. As a result, the company recorded a one-time, non-cash increase in net earnings of $81 million, after income taxes of $45 million.

Activities of particular interest

Armstrong announces retirement; McIvor new chief executive

On Dec. 7, 1981, J.A. Armstrong announced his retirement from Imperial Oil effective April 1, 1982, which is in accordance with the company's policy on retirement at age 65. He resigned as chairman of the board and chief executive on Dec. 31 but remains a director until retirement. Armstrong was succeeded as chairman and chief executive by D.K. McIvor, who has been an employee of the company since 1950 and has extensive experience in oil exploration and production.

A.R. Haynes, chairman of the board of Esso Resources Canada Limited, has been succeeded as chief executive officer of this subsidiary by R.B. Peterson, who was appointed president of Esso Resources on Oct. 1, 1981. On Jan. 1, 1982, Haynes was appointed executive vice-president of Imperial Oil.

Farmouts planned for Arctic, Atlantic acreage

The company is planning to farm out some of its land holdings in the Arctic and the Atlantic to accelerate exploration and to increase Canadian content of its operations in these areas. Oil produced from the Arctic and Atlantic will be classified as "new" oil and will be priced at or near world levels, as established by the Ottawa-Alberta energy agreement of Sept. 1, 1981. As the year ended, negotiations on these farmouts continued.

Beaufort well is dry; further drilling sites prepared

The exploration well drilled at Alerk, 58 km east-southeast of the Issungnak discovery in the Beaufort Sea, was dry. An artificial island was completed for later drilling at West Atkinson, 10 km offshore from the company's 1970 oil discovery at Atkinson Point. Construction began also on an island at Itiyok, 12 km southeast of Issungnak.

Seismic exploration continues in Atlantic

During 1981, the company completed 2900 km of seismic exploration over its holdings in the Atlantic to define geological structures for future drilling.

Western drilling reduced in response to NEP

During 1981, the company participated in 144 exploration and development wells drilled in western Canada, a reduction of 146 from the 290 wells drilled in 1980. The decision to reduce drilling in this area was taken as a result of the terms of the National Energy Program. Of the 61 exploration wells drilled in 1981 (a reduction of 90 from the 1980 figure), six were oil, 40 were gas, and 15 were dry.

Discussions continue on Cold Lake project

As 1981 ended, the company was continuing its discussions with the Alberta and federal governments for commercial terms that would permit it to go ahead with the Cold Lake project, which was suspended in July.

Coal production resumes; further leases acquired

A strike that began on April 29, 1981, at Byron Creek Collieries in British Columbia was settled on Nov. 23 and coal production was resumed.

In November, the company signed an agreement to earn an interest of 70 percent in 3300 hectares of thermal-coal leases held by Associated Porcupine Mines Ltd. at Hinton, Alta. Thermal coal is burned mainly to produce steam.

Imperial withdraws from Petalta; other projects progressing

In January, 1982, the company withdrew from the Petalta project, a joint venture between Esso Chemical Canada and Alberta Energy Company Ltd. to manufacture benzene, other aromatics, and styrene. This decision resulted from changes in business plans caused by the cumulative negative effects of the general economic slowdown, the federal budget and the federal-provincial agreements on petroleum pricing. The company's share of expenditures in the project amounted to $17 million.

By the end of the year, construction on the $400-million plant to produce nitrogenous fertilizer at Redwater, Alta., was about a third complete. Also at Redwater, a $53-million expansion to the phosphate-fertilizer plant was completed in October, five months ahead of schedule. Start-up has been postponed until the market for fertilizers containing phosphates improves. When this plant goes into operation, it will increase production of phosphatic fertilizer by 150 000 tonnes per year.

Construction is continuing on the $180-million plant at Sarnia to produce linear low-density polyethylene resin, which is used in plastic film and moldings. The plant's capacity will be 135 000 tonnes per year and completion is expected in 1983.

The expansion of the asphalt capacity at the Strathcona refinery in Edmonton is expected to be completed in May, 1982, at a cost of about $34 million. The expansion will double the refinery's capacity to produce asphalt made of bitumen from the Cold Lake pilot plant to 2000 m^3/d. The work is part of a major expansion of the refinery, which is expected to be completed in 1983 at a cost of $290 million.

At Sarnia, three process units shut down in 1975 are being refurbished and put back into operation as part of a $100-million project at this refinery to provide additional flexibility in responding to forecast changes anticipated in product demand and feedstock quality. The first of the process units was expected to be operating late in January, 1982, with the other two coming on stream in 1983.

Competition inquiry called erroneous, distorted

At Ottawa on Oct. 20, 1981, Imperial Oil submitted to the Restrictive Trade Practices Commission an extensive refutation of allegations that Imperial and other Canadian companies overcharged customers by $12.1 billion between 1958 and 1973 by uncompetitive behavior. Imperial's submission said the allegations contained errors and omissions and showed a complete ignorance of oil industry realities in some places as well as a limitless willingness to distort fact and logic.

In December, the commission held hearings in Edmonton, Vancouver, and Ottawa to obtain information on the current state of competition in the business. To a large extent, these hearings dealt with the business relationship between companies and their dealers, particularly rental charges and the value to a dealer of his goodwill when he leaves a station. Lawyers for the company argued that pricing practices of concern to dealers were normal responses to strong competition and were necessary to maintain sales.

Further regional hearings were scheduled for Halifax, Montreal, Regina, Winnipeg, London, and Toronto before the commission reconvenes in Ottawa on March 8 to review the international aspects of the petroleum business with emphasis on the importation of crude oil into eastern Canada.